



Board of Administration
P.O. Box 942701
Sacramento, CA 94229-2701
(916) 326-3932

April 19, 2006

The Honorable Arnold Schwarzenegger
Governor, State of California

Honorable Members of the California Legislature

The Board of Administration of the California Public Employees' Retirement System (CalPERS) has accepted the June 30, 2005 Actuarial Valuation of the Judges' Retirement System (System).

The report shows that the System's present value of benefits as of June 30, 2005 is \$2.528 billion using a 7.0% investment return assumption compared to assets of only \$17.244 million. The Board considers this funding deficiency a serious matter. As an example of this funding deficiency, in the past the System has been out of funds before the end of the fiscal year resulting in the delay of benefit payments to members and beneficiaries. Further, the benefit payment demands of the System will continue to increase for the next 12 years as the active membership continues to age and retire. Page 5 of the valuation report shows a projection of expected benefit payouts from the System in the coming years.

In the report, the actuarially recommended contribution for fiscal year 2006/2007 is calculated as a level dollar cost over 30 years and is equal to \$200,115,730. As an alternative funding pattern, the dollar contribution amount has been calculated assuming contributions increase at a rate of 1.0% per year over the 30-year period. Under this alternative funding pattern, the first year's recommended contribution is equal to \$181,160,445. Other contribution alternatives can be devised, e.g. one that gradually increases contributions over the next five years and thereafter has contributions that remain level (or slightly increasing) over the remaining 25 years.

The Board wishes to point out that continuing the policy of paying retirement benefits as they come due jeopardizes the constitutionally guaranteed benefits provided by the System. Until additional funding is appropriated and to prevent an even greater escalation of the unfunded liabilities, the Board believes that any legislation that improves the benefits of the System's members should include an appropriation sufficient to fund the benefit increases.

As part of a law change that added the Extended Service Incentive Program to the Judges' Retirement System Law for the purpose of providing an incentive for judges eligible to receive the maximum retirement benefit to remain in public service, the board is to report the cost of the program to the Legislature in the beginning of 2006. Appendix E summarizes the actuarial cost of the program for purposes of reporting to the Legislature, as required by Law, for fiscal year 2006/2007.

The Board is pleased to file the 2005 report for the Judges' Retirement System with the Governor and the Legislature.

Respectfully,

Rob Feckner, President
CalPERS Board of Administration